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Message Text

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ACTION XMB-04

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DEPT PASS EXIMBANK

E. O. 11652: N/A
TAGS: EFIN, AG
SUBJ: EXIMBANK POLICY ON ALGERIA

REFS: A) STATE 106856, B) ALGIERS 1448

1. EXIMBANK'S POLICY OF LENDING TO ALGERIA ONLY FOR EXCHANGE EARNING PROJECTS AND SELECTED INFRASTURCTURE PROJECTS SEEMS TO HAVE WORKED WELL UP TO NOW BECAUSE THERE WERE ENOUGH APPLICATIONS MEETING THESE CRITERIA TO BRING EXIM'S EXPOSURE UP TO ABOUT THE LEVEL EXIM WANTED. IN OTHER WORDS, AS WE UNDERSTAND IT, IMPORT SUBSTITUTION PROJECTS OR SOCIAL PROJECTS NOT CONTRIBUTINGDIRECTLY TO EXCHANGE EARNINGS COULD BE TURNED DOWN BECAUSE EXIM WAS IN ANY CASE NOT EAGER TO INCREASE ITS EXPOSURE IN ALGERIA.

2. WE SURMISE FROM REFTEL (A) THAT EXIMBANK MAY BE WILLING TO SEE A SUBSTANTIAL INCREASE IN ITS OVERALL EXPOSURE IN ALGERIA. IF IT IS AND IF APPLICATIONS MEETING THE OLD CRITERIA ARE NOT ADEQUATE TO BRING TOTAL EXPOSURE UP TO THE NEW TARGET LEVEL, IT FOLLOWS THAT THE CRITERIA WILL HAVE TO BE EXPANDED. THE PROBLEM IS TO DECIDE ON NEW CRITERIA.

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3. CERTAILY IMPORT SUBSTITUTION PROJECTS OFFER A WIDE RANGE OF POSSIBILITIES. THESE SHOULD BE JUDGED, WE THINK, ON THE BASIS OF THE NET FOREIGN EXCHANGE SAVINGS, THE ECONOMIC VIABILITY OF THE PROJECT, THE ALGERIANS' ABILITY TO OPERATE IT, THE ORIGIN OF THE IMPORTS THAT WILL BE DISPLACED, AND THE NEED TO AVOID ADDING CAPACITY IN INDUSTRIES SUFFERING FROM LONG TERM WORLDWIDE OR REGIONAL OVERCAPACITY. WE BELIEVE THE FINANCIAL CONDITIONS OF THE PARTICULAR

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NATIONAL COMPANY CONCERNED IS LESS IMPORTANT THAN THE VIABILITY OF THE PROJECT, SINCE IN THE END WE ARE DEALING IN ALGERIA WITH A COUNTRY RISK AND NOT A COMPANY RISK.

4. THIS OR A SIMILAR SET OF CRITERIA WOULD EXCLUDE AUTOMOBILE PLANTS (TOO DIFFICULT), REFINERIES (REGIONAL OVER-CAPACITY), SHIPBUILDING (WORLD OVER-CAPACITY), SOPHISTICATED ELECTRONICS (TOO DIFFICULT), STEEL (TOO DIFFICULT AND OVER-CAPACITY), TO NAME A FEW. (EXIM'S AND COMMERCE'S INDUSTRY SPECIALISTS COULD PROBABLY ADD TO THIS LIST).

5. WE ARE NOT SURE HOW THE BATNA TELEPHONE CABLE PLANT WOULD STACK UP AGAINST THESE CRITERIA, BUT WE SUGGEST EXIM TAKE ANOTHER LOOK. OFF HAND, IT DOES NOT SEEM BEYOND ALGERIA'S TECHNICAL ABILITY AND A QUICK LOOK AT U.S. EXPORT DATA AVAILABLE HERE WOULD SEEM TO IMPLY
THAT NO U.S. EXPORTS WOULD BE DISPLACED (ALTHOUGH THIS SHOULD BE CHECKED AGAINST COMMERCE'S MORE DETAILED TRADE DATA.)

6. IN SHORT, WE HAVE NO COMMENT ON THE WISDOM OF EXIMBANK'S APPARENT DESIRE TO INCREASE ITS ACTIVITY IN ALGERIA, BUT WE BELIEVE THAT VIABLE PROJECTS PROMISING NET FOREIGN EXCHANGE SAVINGS, THAT WOULD NOT ADD TO WORLD OVER-CAPACITY, WOULD NOT DISPLACE U.S. EXPORTS AND WOULD NOT BE BEYOND ALGERIA'S TECHNICAL CAPACITY CAN BE FOUND. THE BATNA PROJECT MAY BE ONE.
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